



Vehicle-linked bills don't really help consumers

By George Runner

California's economy continues to be bombarded by regulatory burdens coming from the State Legislature that fail to – as generations of math teachers told students – show their work.

From the state budget, to high speed rail, to pension plans and computer systems that don't compute, California taxpayers have time and again seen what happens when seemingly high-minded concepts run counter to mathematical reality.

Cost-overruns are usually the best case outcomes from this chronic legislative aversion to doing the math. At this time, the Legislature is moving forward three "consumer protection" bills that not only fail to protect consumers, but would cause real and devastating harm to those hardest hit by the recession.

Many Californians have had to deal with home foreclosure, loss of vehicles and dramatically reduced credit due to the state of our economy. Many are unable to obtain a home loan and are renting as a result. Many others are finding that, due to falling credit, their options for loans are limited.

For most people a vehicle is a necessity to find and keep a job. In order to repair their credit, those who are credit challenged often need to find an auto seller willing to take a risk and give them a car loan. Only then can they begin to rebuild their financial stability and get to and from work.

Pre-owned car sellers are often willing to take a big risk, but no one can afford to give away money. That's why loans to those with bad credit have higher rates: nearly 30% of those loans will result in a loss. While that's quite a risk, that number is only part of the equation. Those higher-interest loans are successful 70% of the time in providing a vehicle—so one more Californian can get to work and begin the process of rebuilding his or her credit.

The first of the three bills, SB 956, seeks to cap interest rates on loans provided at Buy Here, Pay Here pre-owned dealerships where the seller also provides the vehicle loan. Rather than help buyers get cars for less, less buyers will get cars. That's because whenever a lender's risk will result in an overall loss, the lender will simply stop lending to those below a certain credit threshold.

A Board of Equalization staff analysis confirms this; there would be fewer car sales due to more individuals deemed ineligible for loans. Fewer sales mean less money for state and local government from reduced sales tax revenues.

For many in our state, no car means no job. No job means they're unable to rebuild their credit. Alternatively, some could resort to illegal, often dangerous, loan sharks to borrow enough at an even higher rate to buy a car outright. That doesn't serve anyone and could only increase crime and unemployment.

The second bill, AB 1447, would require dealers provide a 30 day warranty on every vehicle, regardless of whether the buyer even wants one. Dealers would pass the cost of each warranty onto the consumer, driving up the cost of every used vehicle sold under the bill's terms. It's ironic that something pitched as "consumer protection" will actually mean more expense for consumers.

The final bill, AB 1534, is perhaps the most likely to produce eye-rolls. It requires Buy Here, Pay Here sellers to list the "Reasonable Market Value of this Vehicle" on every car. This might be okay if you could account for the cost of the vehicle, the condition of the vehicle and the actual history of the vehicle rather than vague booking values. Considering this would be enforced by the government, which often pays two to three times more for products than they cost in the private sector, does anyone have faith this would result in a better deal for consumers?

In the case of SB 956, AB 1447 and AB 1534 the sum of the parts is indeed greater than the whole. Rather than help consumers, these bills will hurt them. They will destroy jobs and diminish tax revenue.

Instead of churning out more regulations that increase consumer costs, the Legislature ought to be cutting the red tape that makes living and doing business in California so expensive. By bringing more jobs and businesses to California, the Legislature could finally have something good to show for its work.

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